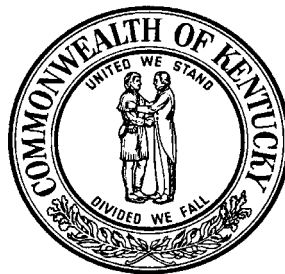


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
CABINET FOR FAMILIES AND CHILDREN**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2004



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

James W. Holsinger, Jr., MD, Secretary
Cabinet for Health and Family Services

MANAGEMENT LETTER

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Cabinet for Health and Family Services to comply with KRS 43.090.

This letter presents the results of the work performed at the Cabinet for Families and Children, as part of our annual audit of the Commonwealth of Kentucky's financial statements. Executive Order 2003-064 has reorganized the Cabinet for Families and Children into the Cabinet for Health and Family Services as of December 23, 2003.

In planning and performing our audit of the basic financial statements of the Commonwealth for the year ended June 30, 2004, we considered the Cabinet for Families and Children's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Cabinet for Families and Children's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Cabinet for Families and Children's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



James W. Holsinger, Jr., MD, Secretary
Cabinet for Health and Family Services
(Continued)

Some findings are Other Matters that we have included in this letter to communicate with management in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Findings and Recommendations (Reportable Conditions and Other Matters)
- ◆ Summary Schedule of Prior Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Cabinet for Families and Children's findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at www.auditor.ky.gov.

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

February 28, 2005



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

James W. Holsinger, Jr., MD, Secretary
Cabinet for Health and Family Services

MANAGEMENT LETTER

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Cabinet for Health and Family Services to comply with KRS 43.090.

This letter presents the results of the work performed at the Cabinet for Families and Children, as part of our annual Statewide Single Audit of the Commonwealth of Kentucky. Executive Order 2003-064 has reorganized the Cabinet for Families and Children into the Cabinet for Health and Family Services as of December 23, 2003.

In planning and performing our audit over compliance with requirements applicable to major federal programs, for the year ended June 30, 2004, we considered the Cabinet for Families and Children's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on compliance with requirements applicable to each major federal program and to report on internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133 and on the Schedule of Expenditure of Federal Awards (SEFA).

We noted certain instances of noncompliance with requirements applicable to major federal programs we considered to be reportable under standards established by OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Cabinet for Families and Children's ability to administer a major federal program in accordance with the applicable requirements of OMB Circular A-133.



James W. Holsinger, Jr., MD, Secretary
Cabinet for Health and Family Services

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Cabinet for Families and Children's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Some findings are Other Matters that we have included in this letter to communicate with management in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations (Federal Noncompliance, Reportable Conditions, and Other Matters)
- ◆ Summary Schedule of Prior Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Cabinet for Families and Children's findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at www.auditor.ky.gov.

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

February 28, 2005

LIST OF ABBREVIATIONS/ACRONYMS

ACF	Administration for Children and Families
AD	Active Directory
APA	Auditor of Public Accounts
BDC	Backup Domain Controller
Cabinet	The Former CFC and Current CHFS Cabinets
CCM	CCM Communications
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CGMS	Copy Generation Management System
CHFS	Cabinet for Health and Family Services
CHS	Cabinet for Health Services
CICS	Customer Information Control System
Commonwealth	Commonwealth of Kentucky
COT	Commonwealth Office for Technology
CPA	Certified Public Accountant
DCBS	Department of Community Based Services
DDM	Distributed Data Management
DDS	Department for Disability Determination Services
DFM	Distributed File Management
DHHS	United States Department of Health and Human Services
DoS	Denial of Service
DRP	Disaster Recovery Plan
FSM	Family Support Memorandums
FY	Fiscal Year
GPO	Group Policy Objects
GPS	Global Positioning Systems
HTTP	Hypertext Transfer Protocol
IBM's DB2	International Business Machine's Database 2
IRC	Internet Relay Chat
ISS	Internet Security System
KAMES	Kentucky Automated Management and Eligibility System
KRS	Kentucky Revised Statutes
K-TAP	Kentucky Transitional Assistance Program
KWP	Kentucky Works Program
LAN	Local Area Network
LHD	Local Health Departments
LSA	Local Security Authority
MS	Manual Section
NA	Not Applicable
NT	New Technology
OCO	Office of Contract Oversight
OMB	Office of Management and Budget
OMTL	Operations Manual Transmittal Letters
OMU	Operations Manual Updates
PA	Public Assistance
PCG	Public Consulting Group

LIST OF ABBREVIATIONS/ACRONYMS

PDC	Primary Domain Controller
RAT	Remote Administration Tool
RMCP	Remote Management and Control Protocol
RTMP	Real Time Management Protocol
SEFA	Schedule of Expenditure of Federal Awards
SFAG	State Family Assistance Grant
SSN	Social Security Numbers
SOLQ	State On-Line Query System
SSL	Remote Database Access Using Secure Socket Layers
SMTP	Simple Mail Transfer Protocol
SQL	Structured Query Language
SSI	Social Security Insurance
STEP	System Tracking For Employability Programs
TANF	Temporary Assistance for Needy Families
WIN	Work Incentive
U.S.	United States

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
Food Stamp Cluster:				
10.551	Food Stamps (Note 2) (Note 3) (Note 4)		\$ 533,396,719	
10.561	State Administrative Matching Grants for Food Stamp Program (Note 2)	\$ 27,381,977		\$ 740,816
<u>U.S. Department of Justice</u>				
Passed Through From Justice Cabinet:				
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program (Note 4)		0	
<u>U.S. Department of Labor</u>				
Direct Programs:				
17.253	Welfare-to-Work Grants to States and Localities (Note 4)		0	
<u>U.S. Department of Energy</u>				
Direct Programs:				
81.042	Weatherization Assistance for Low-Income Persons	4,434,572		4,318,969
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
93.556	Promoting Safe and Stable Families	7,231,646		4,545,226
93.558	Temporary Assistance for Needy Families (Note 2)	118,478,048		11,770,701
93.563	Child Support Enforcement (Note 2)	39,783,680		34,280,228
93.568	Low-Income Home Energy Assistance (Note 2)	26,672,348		26,553,443
93.569	Community Services Block Grant	10,809,093		10,902,239
93.571	Community Services Block Grant Discretionary Awards - Community Food and Nutrition	59,978		59,978
Child Care Cluster:				
93.575	Child Care and Development Block Grant (Note 2)	68,103,955		4,881,424
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	38,454,431		6,942,322

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
U.S. Department of Health and Human Services (Continued)				
Direct Programs (Continued):				
93.590	Community-Based Family Resource and Support Grants	1,622,508		1,172,145
93.597	Grants to States for Access and Visitation Programs	144,026		144,026
93.599	Chafee Education and Training Vouchers Program (ETV)	216,382		
93.603	Adoption Incentive Payments	242,110		
93.643	Children's Justice Grants to States	146,322		132,418
93.645	Child Welfare Services - State Grants	4,438,136		
93.658	Foster Care-Title IV-E (Note 2)	49,903,456		23,674,704
93.659	Adoption Assistance	17,118,407		
93.667	Social Services Block Grant (Note 2)	18,332,053		916,389
93.669	Child Abuse and Neglect State Grants	323,142		71,070
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	984,025		981,979
93.674	Chafee Foster Care Independent Living	1,547,338		1,097,275
Passed Through From Cabinet for Health Services:				
93.767	State Children's Insurance Program	314,699		
Medicaid Cluster:				
93.778	Medical Assistance Program (Note 2)	18,045,422		
U.S. Corporation for National and Community Service				
Direct Programs:				
94.003	State Commissions	122,560		
94.004	Learn and Serve America-School and Community Based Programs (Note 4)	0		
94.006	AmeriCorps	1,440,733		1,394,360
94.007	Planning and Program Development Grants	41,455		18,688
94.009	Training and Technical Assistance	54,466		14,487
U.S. Social Security Administration				
Direct Programs:				
Disability Insurance/SSI Cluster:				
96.001	Social Security-Disability Insurance (Note 2)	39,680,721		
Total Cabinet For Families and Children		\$496,127,678	\$533,396,719	\$134,612,886

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity administered by the Cabinet for Families and Children (CFC), except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs, where applicable, are not reported in the basic financial statements of the Commonwealth for FY 04. The noncash expenditures presented on this schedule represent the noncash assistance expended by CFC using the method or basis or valuation described in Note 3.

Clusters of programs are indicated in the schedule by light gray shading.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by one state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity

State agencies that pass federal funds to state universities report those amounts as expenditures.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 04. CFC had the following programs (cash and noncash) that met the Type A program definition for FY 04, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. CFC identified four (4) clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
Food Stamp Cluster:		
10.551	Food Stamps	\$ 533,396,719
10.561	State Administrative Matching Grants for Food Stamp Program	27,381,977
93.558	Temporary Assistance for Needy Families	118,478,048
93.563	Child Support Enforcement	39,783,680
93.568	Low-Income Home Energy Assistance	26,672,348
Child Care Cluster:		
93.575	Child Care and Development Block Grant	68,103,955
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	38,454,431
93.658	Foster Care – Title IV-E	49,903,456
93.667	Social Services Block Grant	18,332,053

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Note 2 - Type A Programs (Continued)

CFDA #	Program Title	Expenditures
Medicaid Cluster:		
93.778	Medical Assistance Program	18,045,422
Disability Insurance/SSI Cluster:		
96.001	Social Security – Disability Insurance	39,680,721
Total Type A Programs		\$ 978,232,810

Note 3 - Noncash Expenditure Programs

CFC's noncash program description of the method/basis of valuation follows:

CFDA #	Program Title	Amount	Method/Basis of Valuation
10.551	Food Stamps	\$533,396,719	Electronic Benefit Transfer Issuance

Note 4 - Zero Expenditure Programs

These programs had no expenditures related to CFC during FY 04. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 04-CFC-1: The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers

As was noted in the previous audit, CFC did not ensure password policies established on machines adhered to the agency-established password policies. During security vulnerability testing for machines controlled by CFC during FY 04, the auditor received account related information from seven (7) machines within two (2) CFC domains. This information was compared to the agency-established password policy criteria. See the table below for a summary of our findings.

Security Measure	Standard	Number of machines not in compliance with policy	Percentage of 7 machines not in compliance with policy
Maximum Age	31 days	5 – 42 days 1 – 30 days	85.7%
Minimum Age	1 day	5 – None	71.4%
Minimum Length	8 characters	5 – None	71.4%
Lockout Threshold	3 attempts	5 – None 1 – 4 attempts 1 – 5 attempts	100%
Lockout Duration	60 minutes	4 – 30 minutes 1 – 71582788 min 1 – None	85.7%
Lockout Reset	30 minutes	1 – 90 minutes 1 – 60 minutes 1 – None	42.9%

One (1) of these machines was noted with the same password policy issues in the prior year report comment. In addition, one (1) of these machines does not force users to logoff and the password history length is not tracked. This particular machine was noted as not complying with the established password policy in the prior audit report.

If machines within a network are not sufficiently secured, the network could be compromised.

Passwords are an important aspect of computer security. They are the front line of protection for system access. To help ensure the security of a network, it is necessary for a strong password policy to be developed and implemented on all servers within the network in a consistent manner.

Recommendation

We recommend CFC review all machines within their agency-owned domains to ensure that the password policies established complies with the policy established by the agency.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 04-CFC-1: The Cabinet For Families And Children Password Policy
Should Be Consistently Applied To All Local Area Network Servers (Continued)**

Management Response and Corrective Action Plan

There are two types of password policy in our environment, one being the domain password policy and the other being the local password policy, which resides on each workstation and server on our network. The domain policy is the most critical of the two, and all Cabinet for Health and Family Services (CHFS) user accounts use the domain accounts to access resources on our network. CHFS domain policies are in compliance with COT standards, with the exception of Local Health Departments (LHD). We are currently in the process of bringing the LHDs into compliance using an incremental approach. The local policies will be brought into compliance in the AD domain through the use of Group Policy Objects (GPO). Our current environment would require a manual reconfiguration of each machine and would be extremely resource intensive. The use of GPOs in the AD Domain would allow us to correct this on all machines by simply applying the policy at the domain level. Any servers listed in the detailed report that are out of compliance will be immediately addressed.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-2: The Cabinet For Families And Children Should Ensure All Inactive Accounts Are Eliminated And That All Account Names Are Ambiguous**

During the security vulnerability testing for FY 04 on machines controlled by CFC, NetBIOS account information was received from eight (8) machines, including a Primary Domain Controller (PDC) and Backup Domain Controller (BDC) machine, and six (6) Structured Query Language (SQL) and New Technology (NT) machines.

To determine possible unnecessary accounts, the auditor used the criteria that the account password was over the 31-day maximum age and had been used to log onto the system at some point. Fourteen administrator accounts, nine (9) of which are on the PDC, and 87 user accounts, all on the PDC, met this criterion. In addition, there were nine (9) accounts on the PDC that were listed as disabled. Further, the PDC and BDC machines examined had several accounts that had never logged into the system.

Two (2) SQL/NTS machines had the default administrator account that had not been renamed. If these accounts are not renamed, they could be vulnerable if an intruder attempted to gain access by guessing the administrator password through a brute force attack.

The majority of accounts reviewed on the PDC had what appeared to be the user's last four (4) digits of their social security number associated with the account. If an account identifier is required, then something other than the user's social security number should be used.

If the agency's password policy is not enforced, an unauthorized user could easily obtain access to the accounts established on a machine.

Intruders often use inactive accounts to break into a network. If an account has not been used for a reasonable period of time, the account should be disabled until it is needed. This minimizes the possibility that an unauthorized user will access the account. An account should be deleted if it is not going to be reinstated. Further, default administrator, guest, and anonymous accounts in operating system and applications are some of the first accounts that an intruder will attempt to use. Therefore, they should be assigned strong passwords or, if possible, renamed or removed immediately after installation.

Recommendation

We recommend CFC take the following actions:

- Default administrator accounts should be renamed to something more ambiguous in order to prevent unauthorized access.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-2: The Cabinet For Families And Children Should Ensure All Inactive Accounts Are Eliminated And That All Account Names Are Ambiguous (Continued)**

Recommendation

- All accounts on all machines should be reviewed to determine which accounts have not changed their password within the last 31 days. These accounts should be evaluated to determine if they are still valid accounts that are required for a business-related purpose. If not, the accounts should be disabled or deleted depending on the necessity of reinstatement of the account.
- Personal information, including social security numbers, should not be used to identify an account.

Management Response and Corrective Action Plan

We cannot turn off enumeration on the NT4.0 domain controllers as it would interfere with our normal operations. We can however address this problem on our other servers, but on an NT server setting "restrictanonymous" to 1 in the registry is largely ineffective as it still allows enumeration. This will be a moot point when we migrate to the AD domain. We are willing to rename the Administrator accounts on critical machines, but since we cannot prevent enumeration (on any domain controllers or NT4.0 machines) it is still possible to identify administrator accounts with little difficulty. We understand the criticality of purging dormant user accounts and will take steps to both monitor and purge unused/unnecessary user accounts on a scheduled basis. While there may be a minimal security risk to using the last four digits of a social security number this has been the one way in which we can confirm user identity. The last four digits, coupled with a procedure for calling the user back at their work place minimizes the possibility of a security compromise. We will address a possible replacement for the "last four" method but, as this method is deeply ingrained in our system, any change would take several months to implement.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-3: The Cabinet For Families And Children Disability Determination Services Should Ensure Its Disaster Recovery Plan Is Updated To Document Required Periodic Training And Testing Of Plan

For the past four (4) audits, a verbal comment was issued because Kentucky's Department for Disability Determination Services (DDS) had not updated its Disaster Recovery Plan (DRP) to address the following:

- Training of emergency personnel
- Annual testing of the recovery plan

Though DDS staff is periodically trained on recovery procedures, DDS's DRP continues to exclude statements that key personnel are required to attend periodic training and that the plan itself is to be tested periodically. Therefore, this comment has been upgraded to a formal report comment.

If training of emergency personnel and periodic testing of the DRP are not documented in the plan, it increases the likelihood that those steps might not be taken, possibly resulting in DDS being unprepared in the case of an emergency.

Good management practices minimize risks through planning. The goal of a DRP is to improve preparedness at minimal cost using available resources. Not having a complete and up-to-date business recovery plan increases the possibility of loss due to excessive recovery time and costs, and disruption of processing capabilities. Accordingly, planned training and periodic testing of the DRP assures that DDS's IT resources are protected in cases of emergency and processes are not hindered by lengthy system down time.

Recommendation

We recommend DDS update its formal DRP in order to document that training of emergency personnel as well as testing of the recovery plan should be performed periodically during the year.

Management Response and Corrective Action Plan

Response from DDS: DDS accepts the thrust of the auditor's comments. The transition from the Wang as the key processor for DDS was completed in the summer of 2004 and the DRP has not yet been updated to reflect that. We have also not had mandated DDS training, nor broad based practice simulations to test the workability of the plan. The training that DDS conducted in the past was geared to dealing with the more common problems of data loss and recovery.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

FINDING: 04-CFC-3: The Cabinet For Families And Children Disability Determination Services Should Ensure Its Disaster Recovery Plan Is Updated To Document Required Periodic Training And Testing Of Plan (Continued)

Management Response and Corrective Action Plan

DDS has started on correcting these deficiencies and has already contacted another agency in search for short-term quarters in the case of building loss. (If the auditor has suggestions regarding short-term relocations, we would be interested in hearing them.) We will be working, in the updated plan, to better define specific responsibilities, and to define a recovery coordinator. It is still too early in the process to fully outline the range of steps and actions that DDS will take. The Commissioner is in full support of this process.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-4: The Cabinet For Families And Children Should Ensure Security Information Leakage Concerning Agency Devices Is Minimized

As noted during the previous audit, CFC did not restrict critical information divulged by its network machines. During the review of the CFC local area network (LAN) security for FY 04, we discovered several instances where machines within the LAN provided information to anonymous users that could potentially help an intruder with developing details for an attack.

Using standard scanning tools, we reviewed the machine names and other remarks for all machines located within two (2) CFC domains. We noted 18 machines with remarks. Some of these remarks are the user names of each of the machines; however, there are several that might catch an intruder's interest. We also noted the naming convention of machines was not sufficiently ambiguous to disguise the function of some machines.

We also ran other vulnerability assessment tools twice during the FY on 78 machines within two (2) CFC domains, six (6) of which were reported in the prior year comment, to determine if they would return information on Local Security Authority (LSA), Password Policies, or Valid User, Group, or Share Lists. The following table depicts the number of machines that provide this information.

Type of Information	Number of Machines Returning Information	Percentage of 78 Machines Tested
LSA	33	42.3%
Password Policies	7	9%
Valid User List	6	7.7%
Valid Group List	6	7.7%
Valid Share List	2	2.6%

Note that three (3) of the machines from which we obtained the password policy were also reported in the FY 03 comment.

Significant improvement has been made with regards to the types of information divulged by CFC machines. This is due in part to the Server Name Change Project undertaken by the agency.

If a machine is set up to provide excessive information associated with the machine, then an intruder could use this to perform social engineering in order to gain access to the machine or network.

An agency's domain information that is accessible to the world at large through inquiry tools should be kept at a minimum. Agencies should ensure information such as location, accounts associated with the machine, type of data residing on the machine, and the

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-4: The Cabinet For Families And Children Should Ensure Security Information Leakage Concerning Agency Devices Is Minimized (Continued)

machine's role is not divulged or is stated in the most minimal of terms. To accomplish this, an agency can set devices to not respond to certain types of inquiries, use naming conventions that obscure the purpose of machines, and provide no comments on machine activity.

Recommendation

We recommend CFC continue to improve restrictions on the level of information that is being provided by their LAN machines to anonymous users. The agency should ensure adherence to the naming conventions policy for Field, Production and Development servers. In addition, restrictions should be placed on what types of responses machines provide based on certain inquiries.

Management Response and Corrective Action Plan

We are not disputing that this leakage of information is vulnerability but we do believe that this issue does not warrant the investment of resources (this would require each machine to be manually reconfigured) needed to bring us into immediate compliance. Efforts will be ongoing until such time as we are able to reach compliance. The naming convention is being altered as each machine is being migrated to the AD environment. Migration into the AD domain is a slow and intensive process and has been further impacted by the recent cabinet merger. The issue of unnecessary comments has been corrected for all of the machines on the Cabinet for Health Services (CHS) segment of the merged domain. Actions are ongoing within the CFC segment to eliminate unneeded comments.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-5: The Cabinet For Families And Children Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose

During the security vulnerability assessments for FY 04 for machines controlled by CFC, our examination revealed that there were several machines with ports open that may not have a specific business-related purpose. Due to the large number of issues, we grouped the findings below by port number and application.

Port 7 - Echo

Three (3) machines were identified as having port 7 open. This port is used for the Echo service, which could allow a potential Denial of Server (DoS) attack.

Port 25 - SMTP

One (1) machine was found to have port 25 open, which is used for Simple Mail Transfer Protocol (SMTP). It was determined that this machine is not running the most current version of SMTP available. There are vulnerabilities associated with less current versions of SMTP.

Port 79 - Finger

Three (3) machines were identified as having port 79 open, which is used for the Finger service. This service allows a person to remotely check information on a user or system. There are vulnerabilities associated with the Finger Service.

Port 80 - HTTP

Five (5) machines were found to have port 80 open that would not display a website during the FY. Port 80 issues had been reported in FY 03 for three (3) of these machines and the machines still had this same issue until October 2003. When no default website page or login request is present, normally this means that no application/web service is running and the port is not needed. The necessity of this port for the remaining two (2) machines should be determined.

Port 446 - 448 - DDM

One (1) machine was found to have ports 446, 447, and 448 open. These ports are used for the Distributed Data Management (DDM) service, which works in conjunction with the operating system to make a file on another user's computer appear local. Each of these ports are used for different reasons - port 446 runs DDM-Remote Relational Database, port 447 runs DDM-DFM (Distributed File Management), and port 448 runs DDM-SSL (Remote DB Access Using Secure Socket Layers).

Given the banner received through the vulnerability tools used during this review, it seems that there is a client program handling the formatting and encoding of a request and its responses. Research revealed StarSQL could be the program used for this, which is a software driver package that provides direct access to IBM's DB2 relational databases from any Open Database Connectivity compliant Windows or UNIX application.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-5: The Cabinet For Families And Children Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

There appears to be a business necessity for these ports being open; however, they should be reviewed to ensure adequate security has been applied since a response was obtained from the program.

Port 623 - ASF-RMCP

One (1) machine was found to have port 623 open. Research indicated that this port could possibly be used for ASF – Remote Management and Control Protocol (RMCP), Auxiliary Bus Shunt (Aux_Bus_Shunt), and a Trojan. The specific use of this port could not be determined; therefore, it should be reviewed for necessity.

Port 2101 - RTCM-SC104

One (1) machine was identified as having port 2101 open. This TRANSFER CONTROL PROTOCOL port carries the industry-standard format, RTCM-SC104, for sending differential corrections to Global Positioning Systems (GPS). The purpose of this port being open is questionable and should be reviewed for necessity.

Port 3003 - CGMS

One (1) machine was found to have port 3003 open. Originally, it was thought that this port was used as the Copy Generation Management System (CGMS); however, given the banner received through the vulnerability tools used during this review, it appears to be running CICS (Customer Information Control System). If the security settings for CICS are not set properly, an intruder could obtain userid and password credentials.

There appears to be a business necessity for this port being open; however, it should be reviewed to ensure adequate security has been applied since a response was obtained from the program.

Port 3004 - Csoft Agent

One (1) machine was determined to have port 3004 open, which is typically used for the Csoft Agent. Through the use of vulnerability tools, a banner was obtained from the program; however, the purpose of this port being open could not be determined. This port should be reviewed to ensure there is a business necessity.

Port 3006 - II-Admin

One (1) machine was found to have port 3006 open, which is used for Instant Internet Admin. Through the use of vulnerability tools, a banner was obtained from the program; however, the purpose of this port being open could not be determined. This port should be reviewed to ensure there is a business necessity.

Port 3009 - PXC-NTFY

One (1) machine was found to have port 3009 open. This port is commonly used for the PXC-NTFY service; however, the purpose of this port being open could not be determined.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-5: The Cabinet For Families And Children Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 3500 - RTMP

One (1) machine was found to have port 3500 open, which is commonly used as the Real Time Management Protocol (RTMP) port. The purpose of this port being open could not be determined. It should be reviewed for necessity.

Port 3505 - CCM Communications

One (1) machine was found to have port 3505 open, which is used as the CCM Communications port. The purpose of this port being open could not be determined. It should be reviewed for necessity.

Port 3995 - ISS Management Svcs SSL

One (1) machine was found to have port 3995 open, which is used for Internet Security System (ISS) Management Svcs SSL. Research indicated that this port could also be used by the IRC/Fyle Trojan. This port should be reviewed for necessity.

Port 5020 & 5021 - Zenginkyo-1&2

One (1) machine was found to have ports 5020 and 5021 open. These ports are registered as Zenginkyo1 and Zenginkyo2, respectively. The purpose of these ports being open could not be determined. These ports should be reviewed to ensure there is a business necessity for being open.

Port 5022 - Mice Server

One (1) machine was found to have port 5022 open, which is used by a Mice Server. The purpose of this port being open could not be determined. It should be reviewed for necessity.

Port 9000 - CS Listener

Three (3) machines were identified as having port 9000 open, which is used by the CS Listener. Through the use of vulnerability tools, it was determined that these three (3) machines are Lexmark Optra S printers. We were able to view the configuration menu of all three (3) machines. This could allow an intruder to reconfigure the devices in several ways; the most disruptive would be to change the password as well as the public community string, which was set to 'public'. This port should be reviewed to ensure there is a business necessity. If not required by the agency, it should be closed.

Port 10005 - OPWin Trojan

One (1) machine was found to have port 10005 open. While this port can be used for secure telnet, the OPWin Trojan can also use this port. This Trojan is a Remote Administration Tool (RAT) that when run, provides an attacker with the capability of remotely controlling a machine via a 'client' in the attacker's machine, and a 'server' in the victim's machine. This port should be reviewed to ensure there is a business necessity. If not required by the agency, it should be closed.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-5: The Cabinet For Families And Children Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Unassigned Ports

One (1) machine was found to have ports 1099, 8801, and 8803 open. Another machine was found with ports 49400 and 50000 open. The purpose of these ports being open could not be determined.

We are aware that the agency has begun maintaining a comprehensive baseline for agency systems, which is comprised of a scan and analysis of open ports. When new systems and/or services are reported it is analyzed for necessity and either disabled or added to the baseline.

As compared to unnecessary ports being noted on 21 machines last year, there appears to be a great improvement in that there were only ten (10) machines in which the above listed ports were found open, with one (1) specific machine having 16 of the ports open. Some of these ports, however, appear to be vital in order for the agency to conduct business. Therefore, the agency should review these ports to ensure they have a business-related purpose. If they are required, then the proper security measures should be taken to protect them from vulnerability.

Intruders could obtain access to a system through an open port if proper security measures are not applied.

The existence of open ports is an invitation for intruders to enter your system. To minimize the risk of unauthorized access to a machine, only necessary, business-related ports should be open. Further, the application residing at these ports should be secured to the extent possible.

Recommendation

We recommend CFC continue to review all open ports to ensure there is a specific business-related purpose requiring the port to be open. If not required, then that port should be closed. If the port is necessary then the agency should ensure adequate logical security controls are implemented to prevent unauthorized access as necessary.

Management Response and Corrective Action Plan

A review of the detailed report dealing with the CHS segment of the CHFS network, all ports were reviewed and corrective measures taken. Ports without a valid business reason to be opened were closed. The CHFS Security Team is currently developing a process by which to evaluate and monitor open ports. We are currently working on correcting the identified weaknesses within the CFC segment.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

FINDING: 04-CFC-6: The Cabinet For Families And Children Should Maintain Case File Records That Include Client Applications, Recertifications, And Records Of Eligibility Determinations

State Agency: Cabinet For Families And Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department for Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$18,224

We reviewed 77 TANF cases for eligibility and of the cases reviewed; seven (7) cases (or 9%) could not be located or produced by one (1) Division of Community Based Services (DCBS) local office. In addition, while performing Lifetime Limit testing, another case file could not be located from another DCBS local office, bringing the total missing case files to eight (8), which resulted in \$18,224 of questioned costs.

This has been an ongoing problem and the agency has not taken appropriate action to address this internal control weakness.

When TANF case files and records are not maintained or cannot be located, we cannot review client information and documentation for TANF eligibility. In addition, if local DCBS offices do not maintain adequate case records, CFC and the United States Department of Health and Human Services (DHHS) cannot be assured that benefits are issued to eligible recipients.

Federal Regulations at 45 CFR 205.60(a) state,

The State agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determination of eligibility, the provision of financial assistance...The records will include information concerning the date of application and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility (including the individual's social security number, need for, and provision of financial assistance); and the basis for discontinuing assistance.

Federal Regulations at 45 CFR 92.42(b)(1) also state, “. . . records must be retained for three years from the starting date specified in paragraph (c) . . .”

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-6: The Cabinet For Families And Children Should Maintain Case File Records That Include Client Applications, Recertifications, And Records Of Eligibility Determinations (Continued)**

Recommendation

As recommended last year, case files should be maintained to adequately support applications, eligibility determinations, case decisions, and expenditures. CFC should work with local offices (including Fayette County) to assist them in developing and maintaining an adequate filing system so that case files can be tracked and located. Since one local county office has had missing case files in the past two audits, CFC could consider having that local office store files in a central location and require caseworkers to sign out and return cases to the central filing location periodically. In addition, CFC could consider assigning someone the responsibility of keeping track of the case files and maintaining the central file room so that this control weakness can be corrected.

Management Response and Corrective Action Plan

As a result of the Cabinet being cited for this issue in previous audits, the Cabinet worked with Fayette County to implement a new filing system in the local office. Staff from the Division of Family Support went to Fayette County last year for three (3) months to assist in organizing their case files as part of the Cabinet's corrective action plan. The corrective action plan consisted of obtaining a case listing, assign cases to workers based on the alphabet, then have the workers keep those files in their offices. Also, the discontinued case files were to be maintained to allow a worker easy access when someone reapplied.

The corrective action plan was implemented. However, due to high staff turnover in the office, it appears problems are arising when trying to redistribute cases as a result of a worker leaving. The Cabinet will work with Fayette County to assure the local office is following the corrective action plan and implement procedures to follow when a caseload needs to be redistributed. Additionally, the Cabinet will monitor their progress and assist in addressing any problems as they arise.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

FINDING: 04-CFC-7: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Payments Are Made For Approved And Allowable Goods And Services To Eligible Recipients

State Agency: Cabinet For Families And Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department for Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed and Eligibility

Amount of Questioned Costs: \$16,774

We tested a sample of 77 TANF cases from DCBS offices in eight (8) counties. Local offices failed to produce records to support expenditures and follow procedures outlined in Volume III – *Kentucky Transitional Assistance Program (K-TAP)* and Volume IIIA – *Kentucky Works Program (KWP)* of CFC's operating manual.

We noted problems in the following areas, which resulted in \$16,774 of questioned costs:

- Several K-TAP and KWP payments were issued inappropriately (six (6) of 77 cases, 7.8% deficiency rate, \$1,232 questioned cost).
- Four (4) K-TAP cases (or 5.2% of those tested) were assigned a new recertification period of one (1) year in error as a result a caseworker making a change (such as an address change) on the client's account. Likewise, two (2) Kinship Care applications/recertifications were processed yet, other than one (1) Kinship Care Rights and Responsibilities form for one (1) case, evidence could not be produced to document that the client came in for recertification (six (6) of 77 cases, 7.8% deficiency rate, \$3,432 questioned cost).
- Several problems were noted with tracking or following up on KWP compliance and sending out the *KW-204 Conciliation Contact* forms timely (six (6) of 77 cases, 7.8% deficiency rate, \$1,865 questioned cost).
- Birth records for two (2) children (who were likely born out of state) could not be produced (one (1) of 77 cases, 1.3% deficiency rate, \$5,400 questioned cost).
- Social Security number and/or the date and year of birth of the client's child were entered incorrectly into the system for two (2) cases (two (2) of 77 cases, 2.6% deficiency rate).
- Several Public Assistance form PA-32s problems were noted, including
 - forms processed with unused lines not crossed out in the "Description of item or service to be provided" section of the form (nine (9) instances),
 - forms were issued stating they were valid for 30 days when the policy manual states the forms are only valid for 10 days (three (3) instances), and
 - one PA-32 form was not used for a car repair, which resulted a client receiving a \$500 payment based upon a car repair estimate and not an actual invoice (one (1) instance).

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

FINDING: 04-CFC-7: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Payments Are Made For Approved And Allowable Goods And Services To Eligible Recipients (Continued)

- A form PA-33 could not be located to support transportation payments and three (3) transportation payments were issued from one (1) PA-33 (three (3) of 77 cases, 3.9% deficiency rate, \$120 questioned cost).
- Problems were noted with obtaining and responding to Household and School Verifications (four (4) of 77 cases, 5.2% deficiency rate, \$4,725 questioned cost).
- Problems were noted with requesting, utilizing, and updating the system for the PAFS-700 Verification of Income form (four (4) of 77 cases, 5.2% deficiency rate).
- Numerous problems were noted with other K-TAP and KWP forms, including the PA-219, Transitional Assistance Agreement, CS-333, KIM-101, KIP-106, KIM-125, PAFS-14, and the PA-85 (41 of 77 cases, 53.2% deficiency rate).

Some of these (or similar) items were commented on in the FY 01, FY 02, and FY 03 audits, yet CFC has not taken adequate measures to correct these problems.

There are numerous effects of the above weaknesses. In general, when K-TAP and KWP policies and procedures are not adhered to, CFC cannot be assured that expenditures are being made appropriately and K-TAP payments could be made to ineligible individuals. This could result in DHHS assessing a penalty against CFC. According to 45 CFR 262.1(a)(1), the penalty could be for “the amount by which a State misused its TANF funds.”

Good internal controls dictate that when caseworkers make expenditures of Federal awards, the client’s eligibility determination should be reviewed adequately and completely to ensure only eligible participants receive Federal funding. Good internal controls also dictate that program personnel be adequately trained and supervised to ensure Federal monies are expended appropriately in accordance with program policies and procedures.

Federal Regulations at 45 CFR 205.60(a) state,

The State agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determination of eligibility, the provision of financial assistance...The records will include information concerning the date of application and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility (including the individual’s social security number, need for, and provision of financial assistance); and the basis for discontinuing assistance.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-7: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Payments Are Made For Approved And Allowable Goods And Services To Eligible Recipients (Continued)**

Recommendation

In general, we recommend K-TAP policies and procedures be adhered to prior to making expenditures of Federal awards. In addition, CFC should consider increasing management and quality control reviews of K-TAP applications, recertifications, and payments to ensure they are made appropriately in accordance with policies and procedures.

Last year, we noted problems in specific counties and responses to the comment were provided only from those counties; however, we recommended CFC provide caseworkers statewide with a reminder on the specific problems found in the FY 03 audit. These problems in the K-TAP and KWP programs continued during FY 04 and based upon the evidence obtained from the cases sampled in various counties, we do not believe they are isolated to a few DCBS offices but are indicative of problems occurring statewide. Therefore, we recommend that the management response be provided at Cabinet level so that these items can be addressed adequately throughout the state.

Management Response and Corrective Action Plan

The Cabinet for Health and Family Services realizes its responsibility in ensuring each case is processed timely and accurately. The processing of cases correctly prevents and reduces the potential for fraud and administrative errors.

The Cabinet utilizes various forms of communication to inform field staff of policies and procedures of case management. These forms of communication include Kentucky Works Program (KWP) Tips, KAMES News Messages, Family Support Memorandums (FSM), Operations Manual Updates (OMU) and Operations Manual Transmittal Letters (OMTL). OMUs and OMTLs are distributed to provide policy updates and revisions made to the operations manuals. FSMs are distributed to provide clarification of procedures. KWP Tips and KAMES News Messages are posted directly to KAMES. Because they are posted on KAMES, they are available to everyone who has access, which includes field staff and also training. This is the quickest and most efficient manner to communicate with field staff. KWP Tips are reminders to field staff of best practices, procedures, and policy for case managers to utilize in their performance of providing benefits and services to the clients. KAMES News Messages allows us to inform field staff when there may be systems problems, checks being mailed late, etc. The Cabinet will use these methods to address specific problems that were identified in this audit.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-7: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Payments Are Made For Approved And Allowable Goods And Services To Eligible Recipients (Continued)**

Management Response and Corrective Action Plan

It was recommended in the audit for the Cabinet to increase management and quality control reviews. The Cabinet has already increased the number of cases that are to be reviewed by quality control. This number was increased from 1000 cases a year to 1020. The way the sample is taken was also changed to ensure a representative sample of cases is pulled from each region. A proposal has been made to include K-TAP eligibility in quality control reviews and increase even further the number of cases to be reviewed. This proposal is currently in the office of the Commissioner for the Department for Community Based Services awaiting a decision.

The Cabinet is currently in the process of phasing in a new program called State On-Line Query (SOLQ) System. SOLQ will be used to match social security numbers (SSN), birth dates, and names of individuals with information from the Social Security Administration. This process will be incorporated into KAMES processing at the following actions at member level: Applications at case and member level; all member adds for recertifications, program transfer, and case change; SSN change; and special circumstance. The SOLQ transaction date and case information will be captured and stored. From this date, reports for auditing purposes will be created. SOLQ is another avenue to assisting in the accuracy of data entered into KAMES.

The PA-32, Authorization for Supportive Services Payments, is used to verify expenses and authorize payments for items and services associated in the Kentucky Works Program and education or training. The policy stated in the audit is incorrect. The PA-32 is valid for 30 calendar days after issuance. However, the participant only has 10 days to present the form to the provider. If the form is presented within days, then the provider has until the end of the 30-day period to return the form for payment. If the form is not presented to the provider until after 10 days, the form is no longer valid and the client must request a new form. Policy is contained in Vol. IIIA, MS 5360 and in the procedural instructions for the form. Policy and proper use of the form will be reinforced to field staff.

Beginning February 2005, the Cabinet began collecting overpayments as a result of administrative errors. It is the Cabinet's desire that reinstituting this policy will motivate workers to process cases timely and accurately. If they do not, it will add to their workload, as it is their responsibility to establish the claim. Additionally,

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-7: The Cabinet For Families And Children Should Maintain Adequate Records To Ensure Payments Are Made For Approved And Allowable Goods And Services To Eligible Recipients (Continued)**

Management Response and Corrective Action Plan

the Cabinet is going to propose the collection of supportive services. This will be a creation of new policy to be implemented by the Cabinet.

The Cabinet is unsure as to why a new certification period was assigned to cases when making a case change. The Cabinet will research this issue to determine if it is a systems issue or caseworker error. If it is a systems issue, a request will be made to fix the problem. If it is a caseworker error, the Cabinet will issue a KAMES News Message, as well as an e-mail to program specialists, service region administrators and service region administrator associates to address the problem.

Using the recommendations made in the audit, the Cabinet will address the specific issues itemized in the audit on a statewide level. As we are able to identify specific cases, these will be presented to the regions to have correct policy and procedures addressed with the case managers.

Furthermore, by strengthening monitoring, implementing SOLQ, and creating new policy, the Cabinet hopes to create more accountability by the worker thus reducing worker error.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

FINDING: 04-CFC-8: The Cabinet For Families And Children Should Only Issue Work Incentive Payments To Eligible Individuals And Should Request And Maintain Adequate Documentation Of The Eligibility Determinations

State Agency: Cabinet For Families And Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department for Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$1,040

During the FY 04 TANF Eligibility testing, we reviewed six (6) Work Incentive (WIN) payments and each of these payments had deficiencies. While testing other payments, we noted an additional WIN deficiency and it is discussed below as well. During testing, we reviewed the WIN-1 *Work Incentive (WIN) Report* for seven (7) clients and we noted the following, which resulted in \$1,040 of questioned costs:

- 1) WIN payment was issued to the client even though they responded their income exceeded the gross income limit for their family size and attached check stubs that demonstrated this as well. (two (2) of seven (7) cases – 28.6% deficiency rate)
- 2) WIN payment was issued to a client even though the client responded that their gross income exceeded the threshold for their family size. A check stub detailing income for the period was not attached. Evidence could not be produced by the local office to show that the caseworker contacted the client to verify their income eligibility/ineligibility. (one (1) of seven (7) cases – 14.3% deficiency rate)
- 3) WIN payment was issued to the client even though check stubs or proof of employment were not submitted. (one (1) of seven (7) cases – 14.3% deficiency rate)
- 4) WIN payment was issued without the client's response to the gross income question and check stubs were not submitted. Given the client's employment as a teacher and the family status, it is likely the gross income exceeded the limit for the family size. (one (1) of seven (7) cases – 14.3% deficiency rate)
- 5) WIN payment was issued to the client and a copy of the supporting WIN-1 form could not be produced (one (1) of seven (7) cases – 14.3% deficiency rate).
- 6) WIN payments were issued to the client when the client responded that they did *not* have work expenses and evidence that the case worker contacted the client to explain the WIN requirements and verify the work expense response could not be produced. (four (4) of seven (7) cases – 57.1%)

When WIN payment policies and procedures are not adhered to, TANF payments could be made to ineligible individuals. This could result in DHHS assessing a penalty against CFC.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

FINDING: 04-CFC-8: The Cabinet For Families And Children Should Only Issue Work Incentive Payments To Eligible Individuals And Should Request And Maintain Adequate Documentation Of The Eligibility Determinations (Continued)

- 1) According to the WIN-1 form, clients are not eligible if gross income for their family size exceeds an established threshold. If the client states their income exceeds this threshold and also attaches supporting documentation that proves this, caseworkers should not issue a WIN payment.
- 2) Question #3 on Form WIN-1 asks, "Are you currently working? If yes, you must attach proof. This could be a check stub from the current month or a statement from your employer." The form also states, "Remember . . . attach the necessary proof."
- 3) See #2 above.
- 4) The Form WIN-1 should be filled out completely by the client. This form states, "Please read each question carefully and check your answer. Be sure to attach any necessary proof. If you have any questions about this form call your worker...Remember: Read and answer all questions carefully."
- 5) Federal Regulations at 45 CFR 205.60(a) state,

The State agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determination of eligibility, the provision of financial assistance...The records will include information concerning the date of application and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility (including the individual's social security number, need for, and provision of financial assistance); and the basis for discontinuing assistance.
- 6) See # 4 above.

Recommendation

We recommend the following:

- 1) When clients respond that their income exceeds the gross income limit for their family size and attach check stubs that verify this, caseworkers should not issue a WIN payment, as the client is clearly ineligible.
- 2) When clients respond that their income exceeds the gross income limit for their family size but fail to attach proof of employment or a check stub, the caseworker should request check stubs for the month to ensure they are income eligible. The WIN-1 form states in two (2) places that clients are required to attach proof of eligibility. Caseworker actions should be documented in System Tracking For Employability Programs (STEP) and changes to the client's responses should be documented on the WIN-1 form by the caseworker.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-8: The Cabinet For Families And Children Should Only Issue
Work Incentive Payments To Eligible Individuals And Should Request And Maintain
Adequate Documentation Of The Eligibility Determinations (Continued)**

Recommendation

- 3) When clients fail to attach proof of employment (check stub or statement from employer), either contact should be made with the client to request this information and the WIN-1 payment should be placed on hold until the information arrives or the WIN payment should not be made.
- 4) When clients fail to answer the gross income question but attach check stubs, caseworkers should take the time to review the stubs for income eligibility. If the caseworker does not have enough information to document that the client's income is below the threshold, contact should be made with the client and additional information requested. The WIN payment should either be put on hold until all of the information is obtained or the WIN payment should not be made.
- 5) WIN payments should not be made without supporting WIN forms. In addition, an adequate filing system should be maintained so forms and eligibility documents can be kept to support expenditures.
- 6) If the client responds that they do not have work expenses, either the WIN payment should be put on hold until clarification can be made or the WIN payment should not be made. If the caseworker believes the client misunderstood the meaning of "work expenses," they should contact the client to clarify the meaning and document the client's response both on the form and in the case comments in STEP. If clients do not have work expenses, a WIN payment should not be made.

When we presented the problems noted above to the case managers for their response, we were informed that the client's statement is accepted under many circumstances. Although we understand CFC does not want to overburden clients with documentation, if the WIN form states proof (such as a check stub or statement from the employer) must be attached, case managers should ensure the necessary proof is submitted prior to payment. Given the high deficiency rates noted, we recommend CFC implement policies and procedures to ensure WIN payments are only paid to clients who are eligible based upon their income. In addition, if adequate documentation is not obtained to support the expenditure, payment should not be made and actions should be documented more thoroughly in the case comments in STEP.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-8: The Cabinet For Families And Children Should Only Issue
Work Incentive Payments To Eligible Individuals And Should Request And Maintain
Adequate Documentation Of The Eligibility Determinations (Continued)**

Recommendation

Since these problems were noted statewide and were not limited to one (1) particular county, response and action should be taken at the Cabinet level and not at the county level.

Management Response and Corrective Action Plan

It is the Cabinet's response that adequate policies and procedures are in place to ensure payments are made only to eligible individuals. Vol. III, MS 3850 and MS 3860 outline eligibility criteria and procedures workers must follow to issue WIN payments. The errors cited in the audit were made by field staff.

The Cabinet will reinforce to field staff proper procedures that are to be followed when determining eligibility and processing payments for WIN. The Cabinet will inform field staff to review all supporting documentation for accuracy, completeness and eligibility prior to making payment.

Since the implementation of WIN, the Cabinet has had the ability to establish and collect claims as a result of agency error. Authority to allow the Cabinet to collect administrative error claims is provided in 921 Kentucky Administrative Regulation 2:520, Section 5.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

FINDING: 04-CFC-9: The Cabinet For Families And Children Should Document And Correctly Report Unliquidated Balances And Obligations On Quarterly Reports And Ensure Unliquidated Balances Are Spent Appropriately

State Agency: Cabinet For Families And Children

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department for Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Period of Availability

Amount of Questioned Costs: None

While performing the FY 04 TANF Period of Availability testing, we reviewed the Federal Fiscal Year 2003 ACF-196 *TANF Financial Report* for the quarter ended September 30th, 2003. Line 9 of this report lists \$44,068,271 of “Federal Unliquidated Obligations” and Line 10 reports an “Unobligated Balance” of \$8,490,818. We were unable to substantiate how the \$44,068,271 of “Federal Unliquidated Obligations” as reported on Line 9 was determined. Since this amount could not be verified, this means we were also unable to substantiate the \$8,490,818 “Unobligated Balance.” Since CFC could not produce documentation for how these amounts were arrived at and could not provide evidence that the “Unobligated Balance” was spent only on “assistance,” CFC was not in compliance with the TANF Period of Availability requirements for this grant.

If CFC does not spend “Unobligated Balances” on “assistance”, this could result in the DHHS assessing a penalty equal to the amount spent on non-assistance against CFC.

The compliance supplement requires “Unobligated balances from previous fiscal years may only be expended on benefits that meet the definition of assistance at 45 CFR section 260.31 and related administrative costs associated with providing such assistance.”

45 CFR 260.31(a)(1) states, “The term ‘assistance’ includes cash, payments, vouchers, and other forms of benefits designed to meet a family’s ongoing basic needs (i.e., for food, clothing shelter, utilities, household goods, personal care items, and general incidental expenses).” 45 CFR 260.31(a)(3) continues with, “Except where excluded under paragraph (b) of this section, it also includes supportive services such as transportation and child care provided to families who are not employed.” This section goes on to exclude “Supportive services such as child care and transportation provided to families who are employed,” therefore these are considered non-assistance expenditures.

According to 45 CFR 262.1(a)(1), “A penalty of the amount by which a State misused its TANF funds” could be assessed by DHHS.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING: 04-CFC-9: The Cabinet For Families And Children Should Document
And Correctly Report Unliquidated Balances And Obligations On Quarterly Reports
And Ensure Unliquidated Balances Are Spent Appropriately (Continued)**

Recommendation

Prior to year-end, we recommend CFC implement procedures to correctly report “Unliquidated Balances” and “Federal Unliquidated Obligations” on lines 9 and 10 of the ACF-196 report. Documentation for how these amounts are arrived at should be kept so that they can be reviewed for accuracy and compliance. In addition, we recommend CFC implement procedures to ensure and document that “Unliquidated Balances” are spent on items meeting the definition of “assistance.”

Management Response and Corrective Action Plan

The Cabinet agrees with the “Federal Unliquidated Obligations” and Unobligated Balance amounts reported on the ACF-196 report for quarter ending September 30, 2003. Prior to FY 05 the Cabinet reported Federal Unliquidated Obligations as the difference between award amount and expenditures based on all TANF award being budgeted. The Unliquidated Balance of \$8,490,818 was the result of a performance award the State of Kentucky received in addition to the original award. Since the performance award was in addition to the original award amount the \$8,490,818 was not budgeted and thus it was classified as Unobligated Balance on the report. Any unspent TANF funds at the close of a grant year can only be expended on benefits. With the project number change in Management Administrative and Reporting System at the beginning of each new grant year this directs all current expenditures to the new grant. Journal Voucher Corrections are manually processed moving benefit expenditures from the new grant to the old grant until all old TANF funds are expended. The reporting of Federal Unliquidated Obligations was changed at the request of the Atlanta Regional Office beginning FY 05. Only outstanding contract balances are reported as Federal Unliquidated Obligations.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

FINDING: 04-CFC-10: The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.563 – Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

During FY 04 testing for Establishment of Paternity and Support Obligations, Enforcement of Support Obligations, Securing and Enforcing Medical Support Obligations, and Child Support Services for Interstate Cases, we found 12 of the 32 child support cases reviewed were out of compliance.

- In three (3) Medicaid cases, medical insurance was not ordered. The contracting official did not take any action to modify the order to include medical insurance.
- In three (3) Medicaid cases, medical insurance was ordered, but there was no documentation showing an attempt to obtain health insurance.
- In one (1) Medicaid and interstate case, medical insurance was ordered. The contracting official did not attempt to obtain medical support from the other state.
- In two (2) cases, medical insurance was ordered. The contracting official did not take any action to pursue medical support.
- In one (1) interstate case, the agency did not send out the Uniform Interstate Family Support Act petition or file criminal non-support charges.
- In one (1) case, the agency did not quarterly attempt to locate the non-custodial parent from February 1999 to February 2004 to establish paternity and support obligation.
- In two (2) cases, the non-custodial parents were employed during FY 04. Wage assignment was not issued to enforce the support obligations or arrears payoff.

Most of the deficiencies we noted above were lack of securing and enforcing medical support obligations. Some children without medical support obligations are covered under the Medicaid program. The Kentucky Medicaid program may be expending millions of dollars a year, which could be avoided if medical support orders were in place or enforced. House Bill 267 (2005 session) has language to strengthen this area.

CFC is required to conduct self-reviews of its child support program. We compared our testing results to the State self-assessment's results for the compliance requirement of securing and enforcing medical support obligations. We noted the following deficiencies:

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

Finding 04-CFC-10: The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)

- The State's self-assessment did not show that all identified cases noted previously except for one case, were not in compliance for securing and enforcing medical support obligations.
- We requested the checklists for the self-assessment and found CFC did not keep all of checklists.
- CFC provided the contracting official the review sheets for cases found to be out-of-compliance but did not ask the contracting official to take any corrective action or provide a corrective action plan.

The effects of the weaknesses noted above include failing to:

- Take a timely action to establish or enforce obligations may not provide the proper service to children who need financial support.
- Order or enforce medical support may cost the Kentucky Medicaid program millions of dollars.
- Identify deficiencies during the self-assessment may not ensure the contracting office follows the regulations.
- Retain the checklists for self-assessment may not meet the Federal record retention requirements.
- Require the contracting official take corrective action or provide a corrective action plan may not ensure all objectives for providing child support services are met.

45 CFR Section 303.31 (b) states the IV-D agency shall:

- (1) Unless the custodial parent and child(ren) have satisfactory health insurance other than Medicaid, petition the court or administrative authority to include health insurance that is available to the noncustodial parent at reasonable cost in new or modified court or administrative orders for support.
- (5) Provide the custodial parent with information pertaining to the health policy which has been secured for the dependent child(ren) pursuant to an order obtained under this section.
- (6) Inform the Medicaid agency when a new or modified court or administrative order for child support includes medical support and provide the information . . . to the Medicaid agency when the information is available.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

Finding 04-CFC-10: The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)

(7) If health insurance is available to the noncustodial parent at reasonable cost and has not been obtained at the time the order is entered, take steps to enforce the health insurance coverage required by the support order and provide the Medicaid agency with the information . . .

45 CFR section 92.42 (b)(1) states, “. . . records must be retained for three years . . .”

Good internal controls dictate that deficiencies found from the self-assessment should be corrected or a corrective action plan should be provided.

Recommendation

We recommend the following:

- The contracting officials should use appropriate location sources to locate the non-custodial parent in a timely manner.
- The contracting officials should take the appropriate action to enforce the support obligation in a timely manner.
- For compliance with securing and enforcing medical support obligations,
 - In Medicaid cases, if an order exists and health insurance is not part of the order, the contracting official should seek modification of the order to include health insurance. The contracting official should inform Medicaid when a new or modified order includes medical support.
 - If health insurance is ordered, the contracting official should verify insurance information. In Medicaid cases, the insurance information should be sent to Medicaid.
- CFC should provide more training to its contracting officials to ensure all regulations and procedures are followed and required timeframes are met.
- CFC should provide training to field staff for conducting the self-assessment to ensure all compliance criteria are reviewed correctly.
- Checklists for the self-assessment should be maintained for three (3) years.
- CFC should ask the contracting official to take corrective action or provide a corrective action plan for out-of-compliance cases found during the self-assessment.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

Finding 04-CFC-10: The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)

Management Response and Corrective Action Plan

DCBS responses to the program compliance audit of the Kentucky Child Support Program for FY 04. Each recommendation is addressed separately.

- *The contracting officials should use appropriate location sources to locate the non-custodial parent in a timely matter.*

Locate is not a criterion for the Federal Self-assessment, but the locate time frames may be reviewed in three (3) of the review criteria: establishment, enforcement and review and adjustment. The federal compliance standard for each of these categories is 75%. These criteria had 712 actions out-of-compliance, but only 9% of the actions were out-of-compliance for locate. Of the 32 cases reviewed in this audit, only one (1) case was out-of-compliance for locate. We do not believe the audit or the Federal Self-assessment identify locate as a major deficiency in meeting the federal requirements.

- *The contracting officials should take the appropriate action to enforce the support obligation in a timely matter.*

The compliance rate for the Enforcement Criteria for FY 04 was 75%, an increase of eight (8) percentage points over FY 03. Although the Federal compliance requirement of 75% was met for the Enforcement criteria, performance in this area needs to continue to improve. Program staff will continue to monitor Contracting Officials' performance and to work with the Contracting Officials to utilize system reports for monitoring and maintaining enforcement caseloads.

- *For compliance with securing and enforcing medical support obligations.*

-In Medicaid cases, if an order exists and health insurance is not ordered, the contracting official should seek modification of the order to include health insurance. The contracting official should inform the Medicaid agency when a new or modified order includes medical support.

-If health insurance is ordered, the contracting official should verify insurance information. The insurance information should be sent to the Medicaid agency in Medicaid cases.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating To Internal Controls and/or
Reportable Instances of Noncompliance*****Finding 04-CFC-10: The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)**

Management Response and Corrective Action Plan

We agree the Child Support Program continues to experience problems with establishing and enforcing medical support. Attached to this response is a corrective action plan for Medical Support Enforcement.

- CFC should provide more training to its contracting officials to ensure all regulations and procedures are followed and required timeframes are met.*

The Training Branch has a waiting list for scheduling training sessions from the existing curriculum. With upcoming changes, the Training Branch is committed to developing and conducting training in other areas. The Division of Child Support will issue manual material on the federal requirements, timeframes and the Federal Self-assessment. The manual material will be issued by August 1, 2005.

- CFC should provide training to field staff for conducting self-assessment to ensure all compliance criteria are reviewed correctly.*

We would like to note that this audit was conducted in only one (1) of 16 regions. FY 04 was the second year state field staff conducted the Federal Self-assessment reviews. This is a learning process, and we expect the case reviewers will become more proficient in the review process. When the sample for FY 05 is distributed, staff in the Division of Child Support will conduct a teleconference with the state field staff to go over the review method and to answer any questions.

- Checklists for the Self-assessment should be maintained for three (3) years.*

We agree with this recommendation. A memorandum will be issued to staff.

- CFC should ask the contracting official to take a corrective action or provide a corrective action plan for out-of-compliance cases found during the Self-assessment.*

The purpose of the Federal Self-assessment is to give the states an opportunity to assess whether federal requirements for providing child support services are being met. It was designed as a tool to measure the state's compliance, not county compliance. The number of cases pulled for each county is based on the percent of the county caseload to the caseload in the Service Region. For most counties,

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

Finding 04-CFC-10: The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)

Management Response and Corrective Action Plan

enough cases are not reviewed in each category to constitute a valid sample for the county. As a result, the county compliance rate may not be correct, and more importantly, decisions could be made on invalid data. We do not concur with the recommendation to require a corrective action plan from contracting officials for failure to comply with the Federal Self-assessment. We believe the Federal Self-assessment alone cannot be used to determine a county's compliance with meeting federal requirements; however, the Self-assessment review can be used in conjunction with other contracting official performance reports to measure compliance.

Department for Community Bases Services

Corrective Action Plan

Division of Child Support

Performance Indicator: Medical Support Enforcement

<i>Task Item</i>	<i>Priority</i>	<i>Purpose</i>	<i>Actions to be taken</i>	<i>Due Date</i>
<i>1</i>	<i>Issue Policy on Public Consulting Group (PCG) Project</i>	<i>Statewide implementation</i>	<i>Write policy document to notify staff of the PCG project and identify staff responsibilities.</i>	<i>3/15/2005</i>
<i>2</i>	<i>Statewide implementation of PCG Project</i>	<i>Identify existing medical ins. and issue notices to enroll Medicaid children in all counties</i>	<i>Task 1</i>	<i>3/15/2005</i>
<i>3</i>	<i>Upload MMIS Data in KASES</i>	<i>Update child support system with existing insurance and notify of lapse in coverage</i>	<i>Develop requirements, program and test changes to KASES.</i>	<i>6/1/2005</i>
<i>4</i>	<i>Create performance reports and monitoring reports for caseworkers</i>	<i>To measure performance and to assist workers in monitoring cases</i>	<i>Obtain report specifications for and review existing reports. Request enhancements or new reports. Program and test enhanced or new reports.</i>	<i>9/1/2005</i>

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance

Finding 04-CFC-10: The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)

Management Response and Corrective Action Plan

<i>Task Item</i>	<i>Priority</i>	<i>Purpose</i>	<i>Actions to be taken</i>	<i>Due Date</i>
5	Create a Web based Medical Support training session	Establish a resource to improve medical support enforcement	Develop the training curriculum.	9/1/2005
6	Create additional data elements for tracking	Report reliable data for federal reports	Change programming of the OCSE 157.	12/1/2005 This date is contingent upon the date the federal requirements are finalized.
7	Conduct training for all caseworkers	Enhance worker expertise in medical support enforcement	Establish Schedule. Monitor participation.	1/1/2006
8	Create Performance Measure for contracting officials	Provide incentive for improving performance	Add performance measure to the contract. Complete tasks 4 and 6.	7/1/2006

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 04-CFC-11: The Cabinet For Families And Children Should Ensure Consistent Timekeeping By Contracting County Attorneys And Eliminate Contradictory Language In The Contractual Provisions

Federal Program: CFDA 93.563 – Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: None

During testing we observed inconsistent timekeeping practices by the county attorneys for the documentation of actual hours worked. One (1) County Attorney did not use the current CS-27 (Rev 4/03) form for Contracting Officials' Employees' Time Allocation Summary Sheet. In addition, backup documentation for County Attorney hours worked varied greatly by county. Some maintained detailed CS-21 log sheets on a daily basis with date and time worked on each specific case (even down to 0.1 hours or 6 minute intervals). Others marked a daily calendar with a total of hours worked and a note indicating administration, or prepared a monthly note stating hours worked on administration.

We also noted the administration contract for FY 04 allowed rates exceeding \$45 for administration by staff, other than Assistant County Attorneys, upon approval by CHFS Division of Contract. This appears to be contradictory to the contractual provisions outlined in adjacent sections of the contract.

Contracting County Attorneys' documentation of time worked was not reported consistently. The method of documentation was not consistently applied, such as a monthly summary notation for administration by one (1) County Attorney versus detailed timekeeping daily with cases reviewed identified by other County Attorneys.

Documentation requirements for costs indicated in the standardized FY 04 Master Agreement, Section 18.4. (1.) states, "All direct or allowable direct charges shall be documented by appropriate source documents to support the direct charging of the expense."

The FY 04 Master Agreement for the County Attorneys, Section 8.11. states:

Assistant County Attorneys, and other staff members, in the employ of the Second Party, shall receive the same rate of hourly pay for child support activity as they receive for a non child support functions in the Second Party's office. The rate of reimbursement for time worked by the Assistant County Attorney on the Title IV-D Child Support Program shall be an hourly rate not to exceed \$45. Staff members' rate of reimbursement for time worked shall be an hourly rate approved by the Division of Procurement Services, Contract Management Branch.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CFC-11: The Cabinet For Families And Children Should Ensure Consistent Timekeeping By Contracting County Attorneys And Eliminate Contradictory Language In The Contractual Provisions (Continued)**

Recommendation

We recommend that contracting County Attorneys' documentation of time worked should be consistently recorded and detailed on appropriate CS-27 forms and supporting detailed timekeeping. The method of documentation for supporting actual time spent on the Child Support Program administration should be maintained daily with cases reviewed identified, when appropriate. The minimum timekeeping requirements under the Master Agreement and OMB Circular A-87 do not require that the records reflect the date and time worked. Time records by day would facilitate contract monitoring and audit reporting.

We recommend contractual agreements be written clearly to eliminate contradictory areas of the agreement for employees exceeding the \$45 per hour rate.

Management Response and Corrective Action Plan

The Division of Contract Services, Contract Process & Administration Branch will meet with the Division of Child Support, their contract review cross-functional team, and with the Office of Legal Services to determine appropriate action with regard to the language in Section 8 of the Child Support contract with the County Attorneys, and the recommended changes from the APA FY 04 audit findings.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CFC-12: The Cabinet For Families And Children Should Perform Desk Reviews Timely And Follow Up On Corrective Actions And Deficiencies**

Federal Program: CFDA 93.563 – Child Support Enforcement

CFDA 93.575 – Child Care and Development Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

We tested CFC's compliance with subrecipient monitoring provision of OMB Circular A-133 for the Child Support Enforcement and Child Care and Development Block Grant programs. During the FY 04 audit, the results of our testing included the following exceptions:

- Desk reviews on FY03 audit reports were completed; however, corrective action plans from the Campbell County Attorney and Warren County Attorney offices were not received. No follow up was done to obtain the corrective action plans.
- The audit reports for FY 02 and FY 03 for the Pike County Attorney office were received on 1/25/2005. The desk review for these two (2) audit reports was not done.
- We also followed up on the prior year finding. The desk review for the Childcare Council of Kentucky's FY 02 audit report found deficiencies in the audit report. The CPA has not responded or corrected the deficiencies in the FY 02 audit report. No additional follow up was done by the agency.

Without performing a desk review in a timely matter, the required timeframe could not be met. Without doing follow up on the deficiencies found during a desk review, any corrective action could never be taken.

The OMB Circular A-133, Subpart D (d) (5) states: "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

Recommendation

Given the weaknesses noted above, this is an improvement over the FY 03 audit and we continue to recommend the following:

- Once an audit report is received, a desk review needs to be requested immediately so a management decision on audit findings can be issued within six (6) months after receipt of the subrecipient's audit report.
- CFC should follow up on the corrective actions and deficiencies noted during the desk review to ensure the subrecipient takes appropriate and timely corrective action.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CFC-12: The Cabinet For Families And Children Should Perform Desk Reviews Timely And Follow Up On Corrective Actions And Deficiencies (Continued)****Management Response and Corrective Action Plan***Issue 1:*

Corrective action plans from the Campbell County Attorney and Warren County Attorney offices as a result of desk reviews for FY 03 audit reports were not received. No follow up was done.

Management's Response and Corrective Action Plan:

(1) CHFS Office of Contract Oversight (OCO) sent Campbell County Attorney a written request for Corrective Action Plan for the issues noted in the Audit on April 14, 2004. However, Campbell County Attorney's Office was previously provided a copy of the "in-compliance" letter dated March 18, 2004 prepared by OIG, Division of Audits. Campbell County never responded to OCO's April 14, 2004 request.

In response to the findings, on March 14, 2005, OCO has again sent Campbell County Attorney Office a second written request. Follow-up will include tracking for a response by Campbell County within fifteen (15) days from the date of the request.

(2) Warren County Attorney Office was placed on hold because of an ongoing investigation in the Office of the Attorney General conducted by Kathryn Reed. The investigation has now been completed. OCO sent Warren County Attorney Office a written request for a Corrective Action Plan on March 14, 2005. Follow-up includes tracking for a Corrective Action Plan by Warren County Office within fifteen (15) days from the date of the request.

Issue 2:

The audit reports for FY 02 and FY 03 for Pike County Attorney Office were received on 1/25/05. The Desk Reviews for these two audit reports is not done.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 04-CFC-12: The Cabinet For Families And Children Should Perform Desk Reviews Timely And Follow Up On Corrective Actions And Deficiencies (Continued)

Management Response and Corrective Action Plan

Management's Response and Corrective Action:

CHFS Office of Contract Oversight is in the process of performing the desk reviews on these audits. The reviews will be completed and resolutions will be documented in the desk review audit files.

Issue 3:

The desk review for the Childcare Council of Kentucky's FY 02 audit report found deficiencies in the audit report. The CPA has not responded or corrected the deficiencies in the FY 02 audit report. No additional follow up was done by the agency.

Management's Response and Corrective Action:

The Resolutions of audit report deficiencies in the audit report for FY 02 will be resolved and a corrected copy obtained for the desk review audit files.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 04-CFC-13: The Cabinet For Families And Children Should Utilize State Funds To Make Advance Payments**

Federal Program: CFDA 93.563 – Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed

Amount of Questioned Costs: None

During expenditures testing for the Child Support Enforcement Program, we found seven (7) out of 37 expenditures tested were payments made to contractors in advance. The seven (7) payments examined were made to contractors that had not yet incurred costs, nor submitted documentation of actual expenses for reimbursement. The federal government reimbursed the advances. CFC then recouped the advances by reducing subsequent billings during the second half of the fiscal year.

We initially noted this problem during the FY 03 audit and recommended the agency take necessary corrective action. The agency implemented corrective action during FY 04. The seven (7) advances noted above occurred prior to this change in agency practice.

Paying installments in advance with federal funds is not in compliance with the federal requirements.

The OMB Circular A-133, Compliance Supplement Part 3, Section B, Allowable Costs/Cost Principles, Compliance Audit Procedures for State, Local, and Indian Tribal Governments, states in part that allowable costs “represent charges for actual costs, not budgeted or projected amounts.”

Recommendation

CFC should continue making advance payments using only state funds.

Management Response and Corrective Action Plan

CHFS has responded to this issue, which was noted in the APA FY 03 Audit. Beginning with FY 05, the processing of installment (advance) payments to the Child Support Contracting Officials (County Attorneys) had been changed in accordance with the FY 03 findings. The new procedure mandates that these installments be funded completely with Agency funds. The Federal reimbursement share is only requested after installments are recouped (on allowable, necessary program expenditures).

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-14: The Cabinet For Families And Children Should Review The ACF-196 Quarterly Report For Accuracy And Completeness And Ensure The Reported Expenditures Are Reasonable

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department for Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

While reviewing a sample of ACF-196 reports submitted during FY 04, we compared the administrative expenses reported on Line 6J with the total available expenditures reported on Line 4. This comparison revealed that administrative expenses were fairly consistent during grant years 2002 and 2003, but dropped considerably for grant year 2004. For example, administrative expenses represented around 9-10% of total expenses on the 2003 grant, but according to the reports submitted for the 2004 grant, administrative expenses were much lower (12/31/03 – 3.35%, 3/31/04 – 6.53%, 6/30/04 – 1.98%, and 9/30/04 – 3.8%). Further investigation revealed that around \$4,000,000 of administrative expenses were miscoded on the ACF-196 as nonadministrative expenses as a result of a data entry error. Upon being informed of this error, the 9/30/04 cumulative ACF-196 report was revised accordingly.

Administrative expenses were being reported incorrectly to DHHS as nonadministrative expenses on the ACF-196 reports for the 2004 grant. There is a 15% limitation on administrative expenses for the TANF grant and miscoding the administrative expenses resulted in a \$4,000,000 understatement of this expense on the ACF-196 report for the majority of the grant year. Failing to report accurate information to DHHS could result in CFC receiving a reporting penalty.

45 CFR 265.8(a)(4) states the following: “We will take action to impose a reporting penalty under §262.1(a)(3) of this chapter if: . . . The TANF Financial Report does not contain complete and accurate information on total expenditures and expenditures on administrative costs and transitional services.” According to 45 CFR 262.1(a)(3), this is “A penalty of four percent of the adjusted State Family Assistance Grant (SFAG) for each quarter a State fails to submit an accurate, complete and timely required report.”

Recommendation

We recommend CFC staff responsible for the ACF-196 provide an adequate review of the report for reasonableness and accuracy prior to submission to DHHS. CFC could also consider comparing expenditures reported in the current quarter with prior quarters to provide additional assurance that expenditures are being reported correctly.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance***

FINDING: 04-CFC-14: The Cabinet For Families And Children Should Review The ACF-196 Quarterly Report For Accuracy And Completeness And Ensure The Reported Expenditures Are Reasonable (Continued)

Management Response and Corrective Action Plan

CHFS agrees with the finding of incorrect copying on a worksheet used to prepare the ACF-196 Reports for the 2004 TANF grant. The administrative expense limitation of 15% can and will vary from quarter to quarter and during the grant period the administrative expense could exceed the 15% administrative limit. The 15% administrative limitation is only applicable at the close of the grant. CHFS will develop a tool to monitor the administrative expense percentage.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING: 04-CFC-15: The Cabinet For Families and Children Should Document Extensions of Benefits Beyond the 60-Month Lifetime Limit In Accordance With Established Policies And Procedures**

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department for Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Eligibility

Amount of Questioned Costs: \$956

The Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193, as amended) mandated a maximum lifetime limit on welfare benefits for 60 months. Some households scheduled to have their benefits discontinued may receive special hardship exemptions and continue to receive all or a portion of their TANF cash assistance for as long as the hardship lasts.

We tested a sample of 16 TANF recipients that had reached the 60-month lifetime limit to determine if benefits received beyond the 60 months were supported by a valid extension. We also tested a sample of 39 recipients nearing the lifetime limit in FY 03 to ensure they were discontinued appropriately at 60 months during FY 04. During our testing this year, we noted significant improvement in the agency's cutoff of benefits at the 60-month limit and the agency should be commended for this. We did, however, note areas that continue to need improvement, which resulted in \$956 of questioned costs.

- Benefits were extended beyond 60 months for an individual who did not have a valid extension. This individual received one (1) extra payment to which they were not entitled (and upon discovery by the agency, the individual was appropriately discontinued).
- Extensions of benefits were not adequately documented in accordance with State policies and procedures. We found: two (2) cases where a PA-4 was not obtained for a client who was caring for a special needs household member; one (1) case where the PA-4 was obtained but did not contain all of the required information to properly document a valid extension; and one (1) file was missing and proper extension information could not be determined.
- Benefit extensions were not reviewed timely in accordance with State policies and procedures. During testing we found a case where the PA-4 was not requested timely and proper follow up on the request was not performed.

When CFC fails to discontinue benefits to TANF recipients that have reached the 60 month lifetime limit, clients receive additional benefits they are not entitled to, which may prevent eligible recipients from receiving benefits due to the limited funds available. In addition, failing to discontinue benefits at 60 months (without evidence to support a valid extension) could result in the state being penalized by DHHS. In addition, failing to adequately document extensions could result in an individual receiving benefits to which

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING: 04-CFC-15: The Cabinet For Families and Children Should Document Extensions of Benefits Beyond the 60-Month Lifetime Limit In Accordance With Established Policies And Procedures (Continued)

they are not entitled. For example, physician's statements may not include all of the required information contained on the PA-4 (or if all of the questions on the PA-4 are not answered) and without having authoritative responses to these questions, a proper evaluation of the situation (in accordance with State policies) may not be possible. Also, since circumstances change, failing to review and follow up on extensions timely (in accordance with State policies and procedures) could result in an individual receiving benefits to which they are not entitled.

OMB Circular A-133 Compliance Supplement for CFDA 93.558 Part III. E.1.b.(1) states:

Any family that includes an adult or minor child head of household or a spouse of the head of household who has received assistance under any State program funded by Federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 Section 408(a)(7)(A) states:

NO ASSISTANCE FOR MORE THAN 5 YEARS – IN GENERAL – A State to which a grant is made under Section 403 shall not use any part of the grant to provide assistance to a family that includes an adult who has received assistance under any State program funded under this part attributable to funds provided by the Federal Government, for 60 months (whether or not consecutive) after the date the State program funded under this part commences . . .

TANF Final Rule Executive Summary states, "In general, States may not use Federal Funds to provide assistance to a family if it includes an adult or minor head-of-household or the spouse of a head-of-household who has received assistance for a cumulative total of more than 60 months."

Federal Regulations at 45 CFR 264.1(a)(1) state, "Subject to the exceptions in this section, no State may use any of its Federal TANF funds to provide assistance to a family . . . who has received Federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive)."

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING: 04-CFC-15: The Cabinet For Families and Children Should Document Extensions of Benefits Beyond the 60-Month Lifetime Limit In Accordance With Established Policies And Procedures (Continued)**

Federal Regulations at 45 CFR 264.2, also states:

If we determine that a State has not complied with the requirements of §264.1, we will reduce the SFAG payable to the State for the immediately succeeding fiscal year by five percent of the adjusted SFAG unless the State demonstrates to our satisfaction that it had reasonable cause, or it corrects or discontinues the violation under an approved corrective compliance plan.

Manual Section (MS) 2003 A(3) of Volume III, Kentucky Transitional Assistance Program (K-TAP), of the Operation Manual states that extensions may be granted if:

The K-TAP adult is required to provide constant care of at least 6 hours a day for a household member who is a parent, spouse or child with a disability who is homebound and no alternative care arrangement is available. The need for the constant care is documented by a health care professional's statement, which is obtained by form PA-4, Verification of Required Caretaker Services. Form PA-4 documents the need for the care, the tasks the caretaker performs and how many hours per day the care is required.

MS 2003 A(3) of Volume III, Kentucky Transitional Assistance Program (K-TAP), of the Operation Manual also states that in the situations referred to above, "The extension is reviewed every 6 months with a new form PA-4 completed."

Recommendation

We again would like to note the significant improvement made statewide in appropriately discontinuing benefits at the lifetime limit. To continue to improve in this area, we recommend the following:

- CFC should remind staff statewide of the importance of closely monitoring each case so that an ineligible recipient does not receive additional months of benefits to which they are not entitled.
- Caseworkers should request and retain adequate documentation, including completed PA-4s, in the recipient files to support extensions of benefits beyond the lifetime limit.
- Extensions should be reviewed timely in accordance with CFC's policies and procedures.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING: 04-CFC-15: The Cabinet For Families and Children Should Document Extensions of Benefits Beyond the 60-Month Lifetime Limit In Accordance With Established Policies And Procedures (Continued)**

Management Response and Corrective Action Plan

The Cabinet continues to make efforts to ensure recipients do not receive beyond the 60-month lifetime limit of receipt and monitor those recipients who have been granted a hardship and are allowed to receive beyond 60-months.

The Cabinet has two listings for field staff to utilize to monitor cases that are approaching their 60-month lifetime limit or have reached their lifetime limit. HRKIMR60, K-TAP 36-Month Report, is a listing that contains all cases that have received 36-months of benefits or greater. Field staff are to monitor this report and ensure recipients who have not received 60-months are participating in a countable activity. Field staff are also to use the report for cases that are approaching their 60-months of receipt. Field staff are to contact those recipients, discuss their situation and pursue the possibility of extension if necessary. HRKIMR8D01, Cases with 60-month K-TAP Extension, list all cases receiving beyond the 60-months and the extension code. Field staff use this listing to ensure cases are not receiving beyond their 60-months without a valid extension reason. Each month the regional staff monitor both listings and annotate why the recipient has an extension and that the extension is valid. The 60-month extension listing is sent to the Division of Family Support, Family Self-Sufficiency Branch, on a quarterly basis for review.

Realizing the process could be simplified, the Family Self-Sufficiency Branch is working with the Office of Information Technology to combine the two listings. This is in effort to create a more user friendly document and eliminate duplication.

The Cabinet continually sends out monthly reminders through KWP Tips and KAMES New Messages to remind field staff to monitor their cases closely. The Cabinet will continue this effort and research ways to better ensure cases are worked properly.

Auditor's Reply

The Agency provided responses on improvements that will be made regarding the monitoring of cases that approach the 60-month lifetime limit. We appreciate these efforts and also acknowledge the improvement made in this area during FY 04. The Agency, however, failed to address all aspects of the finding. In addition to ensuring that benefits are only extended to eligible individuals, we recommend that the Agency take appropriate steps to ensure that these extensions are reviewed timely and documented in accordance with established policies and procedures.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING: 04-CFC-16: The Cabinet For Families And Children Should Take Steps to Ensure Deleted Payments Are Not Issued**

Federal Program: CFDA 93.558 – Temporary Assistance For Needy Families

Federal Agency: U.S. Department for Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: None

Amount of Questioned Costs: None

During a TANF eligibility test, we pulled a client's payment history in the Management Administrative and Reporting System to examine payments made during FY 04. Four (4) checks were issued to a vendor, two (2) on 10/10/03 totaling to \$1398 and two (2) on 10/24/03, which also totaled to \$1398. Apparently, the caseworker intended that the second set of checks not be issued and therefore deleted them from the system. The 10/24/03 checks were marked as deleted; however, they were actually issued to the vendor.

Although this was a general fund payment, we feel this control should be addressed because 1) the payment could have been made out of Fund 1200 and the result would likely have been the same, 2) not every vendor or client would return an overpayment or a payment to which they were not entitled, and 3) the amount of the payment could have been much larger.

Even though the checks were deleted, appropriate steps were not taken to ensure the checks were not issued. If caseworkers intend to delete checks and the checks are actually issued, then vendors or clients could receive payments to which they are not entitled and fewer funds would be available for eligible program participants.

Fortunately, in this situation, the vendor returned the checks to the Commonwealth; however, if deleted payments are actually issued, it is possible an overpayment may not be discovered or recovered.

Internal controls dictate that if a payment is deleted, appropriate steps should be taken to ensure the check is not actually issued.

Recommendation

We recommend CFC:

- Develop and implement controls to ensure deleted payments are not issued. The controls could include, for example, requiring employees to pull the check prior to mailing or contact Treasury and request the check not be issued to the vendor.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING: 04-CFC-16: The Cabinet For Families And Children Should Take Steps to Ensure Deleted Payments Are Not Issued (Continued)**

Recommendation

- Consider having local offices develop a log to track deleted payments to ensure they are disposed of properly (check is deleted from the system, intercepted, properly voided or redeposited, and the client's account or original expenditure is credited in the system).
- Send an email to appropriate CFC employees to inform them of the policy and provide instructions to ensure deleted payments are properly handled.

Management Response and Corrective Action Plan

The worker may only delete a payment on the day the payment is entered into the STEP system. If deleted on the same day, no check is issued. Once a payment is entered into the system, the system batches the same night and the check goes through the issuing process. There is the ability for the check to be pulled, but that is only if the worker realizes a check was issued in error. Additionally, it is a short timeframe in which a check can be pulled before it is mailed out. If a check is deleted, the system does maintain a record showing deletion.

In the case reviewed for the audit, the checks were issued in error. It is our estimation these checks were issued in error because the payment history was not reviewed thoroughly and the recipient's SSN was used for the original issuance instead of the vendor number. Because the worker did not realize another worker had previously issued these checks, the payments were issued a second time. However, it does show that the payments were deleted as result of the checks being returned by the vendor. When a vendor returns a check, the check is redeposited and the system is changed to reflect the payment was deleted and balances are adjusted if necessary.

All payments for supportive services should be issued using form PA-32 process. Each local office has a log called the PA-32A to track each PA-32 that is issued. When a payment is made from a PA-32 the log should be annotated to reflect payment was made.

The Cabinet will issue tips advising field staff to review payment history and use the vendor number when making supportive service payments. The Cabinet will also remind local offices to ensure the PA-32A log is completed accurately and timely. Additionally, the Cabinet will notify the region to make sure this issue is addressed with the workers involved in the specific case cited in the audit.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 03	03-CFC-2	The Cabinet For Families And Children Should Ensure All User Accounts On Its Agency Machines Are Necessary	NA	0	Resolved during FY 04.
FY 03	03-CFC-6	The Cabinet For Families And Children Should Require State Colleges, Universities, And Area Development Districts To Submit An Annual Audit Report	17.253 93.558 93.563 93.575	0	Due to improvements, this finding is downgraded to an Other Matter for FY 04. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 03	03-CFC-7	The Cabinet For Families And Children Should Discontinue Temporary Assistance For Needy Families Benefits To Recipients Who Have Reached The Sixty-Month Lifetime Limit	93.558	\$8,876	Due to improvements, this finding is downgraded to an Other Matter for FY 04. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 03	03-CFC-10	The Cabinet For Families And Children Should Disburse Child Support Grant Funds In Compliance With Federal Requirements	93.563	0	Due to improvements, this finding is downgraded to an Other Matter for FY 04. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
<i>(1) Audit findings that have been fully corrected: (Continued)</i>					
FY 02	02-CFC-12	The Cabinet For Families And Children Should Develop A Policy And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed	17.253 93.563 93.575	0	Due to improvements, this finding is downgraded to an Other Matter for FY 04. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY02	02-CFC-14	The Cabinet For Families And Children Should Monitor Cases Closely So An Ineligible Recipient Does Not Receive Additional Months Of Benefits	93.558	\$2,616	Due to improvements, this finding is downgraded to an Other Matter for FY 04. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
		Total Questioned Costs		<u>\$2,616</u>	
FY 01	01-CFC-4	The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed	17.253 93.558 93.563 93.568 93.575 93.596	0	Due to improvements, this finding is downgraded to an Other Matter for FY 04. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .
FY 00	00-CFC-12	The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133	93.558 93.563 93.575 93.596	0	Due to improvements, this finding is downgraded to an Other Matter for FY 04. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 03	03-CFC-1	The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	Improvements were made during the FY, but issues still exist. See 04-CFC-1.
FY 03	03-CFC-8	The Cabinet For Families And Children Should Maintain Adequate Records To Ensure That Payments Are Made For Approved And Allowable Goods And Services	93.558	\$5,791	See 04-CFC-6 and 04-CFC-7.
FY 02	02-CFC-2	The Cabinet For Families And Children's Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	Improvements were made during the FY, but issues still exist. See 04-CFC-1.
FY 02	02-CFC-15	The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures	93.558	0	See 04-CFC-6 and 04-CFC-7.
FY 01	01-CFC-1	The Cabinet For Families And Children Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers	NA	0	See 04-CFC-1.
FY 01	01-CFC-2	The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures	93.558	0	See 04-CFC-6 and 04-CFC-7.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid and does not warrant further action:

No findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

No findings for this section.

(2) Audit findings not corrected or partially corrected:

No findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding no longer valid:

No findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 03	03-CFC-3	The Cabinet For Families And Children Should Strengthen The Logical Security Procedures For The Workers Information System	NA	0	Resolved during FY 04.
FY 03	03-CFC-9	The Cabinet For Families And Children Should Review The ACF-199 Report To Ensure Reasonableness And Accuracy Before Submission To The Federal Government	93.558	0	Resolved during FY 04.
FY 02	02-CFC-3	The Cabinet For Families And Children Should Ensure All User Accounts On Its Agency Servers Are Necessary	NA	0	Resolved during FY 04.
FY 02	02-CFC-10	The Cabinet For Families and Children Should Ensure System Access Request Forms Are Readily Available			Resolved during FY 04.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 03	03-CFC-4	The Cabinet For Families And Children Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	See 04-CFC-4.
FY 03	03-CFC-5	The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	Improvements were made during the FY, but issues still exist. See 04-CFC-5.
FY 02	02-CFC-4	The Cabinet For Families And Children Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	See 04-CFC-4.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Other Matters (Continued)

(2) Audit findings not corrected or partially corrected: (Continued)

FY 02	02-CFC-5	The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	Improvements were made during the FY, but issues still exist. See 04-CFC-5.
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(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid and does not warrant further action:

No findings for this section.